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Subscriptions V2 Follow-Up

July 31, 2017

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EXHIBIT 5674.R

EXHIBIT 5674.R-001

Context & Summary

Context

- 2 key follow-ups from last meeting:
 - **Billing Policy Update Tactical Plan:** not yet complete. Target completion date: ~8/21, Announcement @ Playtime 10/17
 - **Subs Rev Share Change:** Two options: (1) 30% for 6 months / 15% thereafter or (2) 30% for 12 months / 15% thereafter (Apple, Amazon model)
- Increasing concern that top subscription devs will de-integrate with Play Billing
- Spotify update

To Discuss Today

- De-integration risk, and potential short-term solutions to mitigate, while we wait for policy change to launch

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De-integration risk

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Increasing concern that top subs devs de-integrate

	Subs Rank (by 2016 spend)	2016 Spend	Status	Comments
LINE MUSIC	8	\$6M	De-integrated (June 2017)	-Stated 30% rev share too high -We decided not to offer ADAP
tinder (Match)	1	\$46M	Moderate Risk	-Asked if they could launch other payments
Dropbox	9	\$6M	High Risk	-Stated they'll move off Play Billing this week -Asked for 10-15% terms
okcupid (Match)	18	\$4M	Moderate Risk	-Launched CC in addition to GBP
badoo	23	\$3M	Moderate Risk	-Launched CC + PayPal in addition to GPB
bumble (Badoo)	43	\$2M	Moderate Risk	-Launched CC in addition to GBP

Primary concern is NOT Play revenue impact, but (1) increased apps billing inconsistency and (2) more difficulty launching policy change

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Options to mitigate de-integration risk

Option	Risk
Recommended Wait to launch universal billing policy and revenue share change	More developers de-integrate, making policy change harder and optics worse
	- May be perceived as inconsistent - At risk devs still de-integrate - Increased risk of leaks to press and competitors
Launch universal rev share change (30% for 6 or 12 mo, 15% thereafter) <i>now, prior to</i> billing policy update	- No longer can bundle rev share change with billing policy update announcement - At risk devs still de-integrate
Extend LRAP terms (15% effective immediately) to qualifying devs in other categories	- Increases price pressure (on apps and games) - Rationale unclear - Consideration unclear

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- 50% chance for Dropbox for option 3.

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Slide 5

- 1 Larissa Fontaine (Google), Paul Feng (Google) feels like optimal solution is to launch the universal billing policy and rev share update, especially if we can get it done soon. We may lose a few more devs, but we'd avoid short-term fixes (e.g. more aggressive price cuts) which could create more inconsistency and pricing pressure. What do you think?
Samer Sayigh, 7/31/2017

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Rev Share

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Competition: Apple & Amazon @ 30% for 12 months

70/30 rev share model prevalent. Apple & Amazon publicly changed subscription terms

~20% effective subscription rev share is not out of band, when compared to "specialist" competitors

	Non-Subs IAP	Subs
Facebook (for news)	N/A	<u>0%</u>
Apple	70/30	70/30 (1st year) 85/15 (13+ month)
Subscribe with Amazon	N/A	70/30 (1st year) 85/15 (13+ month)
Amazon (Paid Apps)	70/30	
Amazon (UG Apps)	\$0.002 / minute (varies by geo)	
Samsung Galaxy Apps	Standard: 70/30 Galaxy App Partners: 80/20	
OneStore (KR)	70/30	
Opera Mobile	70/30	
Yandex (RU)	70/30	
Airtel Apps (IN)	Free (pays dev \$0.15 per install)	
9apps (IN)	Free	
SideMe	Varies by FOP	
Chinese App Stores	~50/50; varies by spend tier, form factor	

Competing Service	Effective monthly revenue share*
Subscriber Acquisition (video, music) <i>Affiliates, OEMs, Cable Companies</i>	10-15%
Payment Processing & Billing Mgmt <i>Zuora, Stripe, Chargify, Recurly, Braintree</i>	3-6%
Analytics & Reporting <i>Mixpanel, Flurry, App Annie</i>	0-1%

Total: 13-22%

*Competitors use various price metrics: revenue share, subscriptions, and one-time bounties. Table estimates effective monthly revenue share.

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- Presenter: Samer

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We're leaning towards 30% for 6 month (vs. 30% for 12 months)

Cons

Price war risk

- Could trigger race to bottom (w/ Apple & Amazon)

Higher games contagion

- Increased pricing pressure on games non-recurring IAP
- Increased [interest](#) from games in converting to subs business model

Gives away some margin, but impact isn't [substantial](#)

Pros

Better helps land billing policy change

- Best offer on the market

Makes Android platform more attractive

- Acknowledges only a few devs can keep subscribers for 13+ months ([data](#))
- Meaningful benefit for developers, addressing platform monetization gap

More sustainable

- Less pressure for LRAP-like deals

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Potential competitor response to 30% for 6 months / 15% change from Play

Three potential responses from Apple or Amazon:

Stay (30% for 12 months)

Match (30% for 6 months)

Beat (30% for <6 months)



Possible

- Can argue that devs achieve longer sub periods on iOS vs. Android

Possible

- May succumb to pressure from developers that Play has better pricing than Apple

??

- News pressure?

**Subscribe
with Amazon**

Unlikely

- Competing for developer attention

Possible

- Added incentive for devs to integrate with Amazon

Possible

- Amazon may be less interested in direct revenue from Subscribe with Amazon

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Potential Spend + Revenue Uplift

	Total (2 year)		Total (4 year)	
	<i>Spend</i>	<i>Play Revenue</i>	<i>Spend</i>	<i>Play Revenue</i>
Base Case (No rev share or policy change)	\$1.7B	\$447M	\$3.7B	\$971M
Rev Share + Policy Change				
30 (6 months) / 15	\$2.3B (+\$600M)	\$500M (+\$53M)	\$4.8 - 5.1B (+\$1.1 - 1.4B)	\$1101 - 1221M (+\$130 - 250M)
30 (12 months) / 15		\$548M (+\$101M)		\$1231 - 1471M (+\$260 - 500M)

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- Presenter: Samer
- Effective Rev Share Assumptions
- 30 (12 months) / 15: 28%
- 30 (6 months) / 15: 25%

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Appendix

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Games Impact: 2 risks to consider

Risk	Risk Assessment	Risk Mitigation
<div>1</div> Games Convert to Subscription	<p>LOW</p> <ul style="list-style-type: none"> Subs may appeal to head games due to <u>long non-recurring IAP spend duration</u> (For top 10 games, buyers take ~11 months to reach 80% of lifetime spend from 1st purchase; detail in appendix) However, per Games BD, head games unlikely to <u>fully</u> convert to subs model (may undermine HVU upside); also, game subs on Play today have short durations (1-2 months) 	<ul style="list-style-type: none"> Include policy / guidelines about what may be sold via subscription Keep subs rev share @ 30% for 6+ months
<div>2</div> Price Pressure on Non-Recurring IAP in Games	<p>MEDIUM</p>	<ul style="list-style-type: none"> Develop rationale (next slide) Come up with subs rev share that isn't visible price cut

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- Presenter: Samer
- John M: Game devs are profit maximizing so they won't switch HVUs down to subscriptions. Also, the "in the moment" purchasing driven by LiveOps can be hard to replicate with a subscription.

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Games

< we need to work with John McGuire on games positioning.... >

Slide 13

1 Paul to talk to John....

AI - add the games analysis.

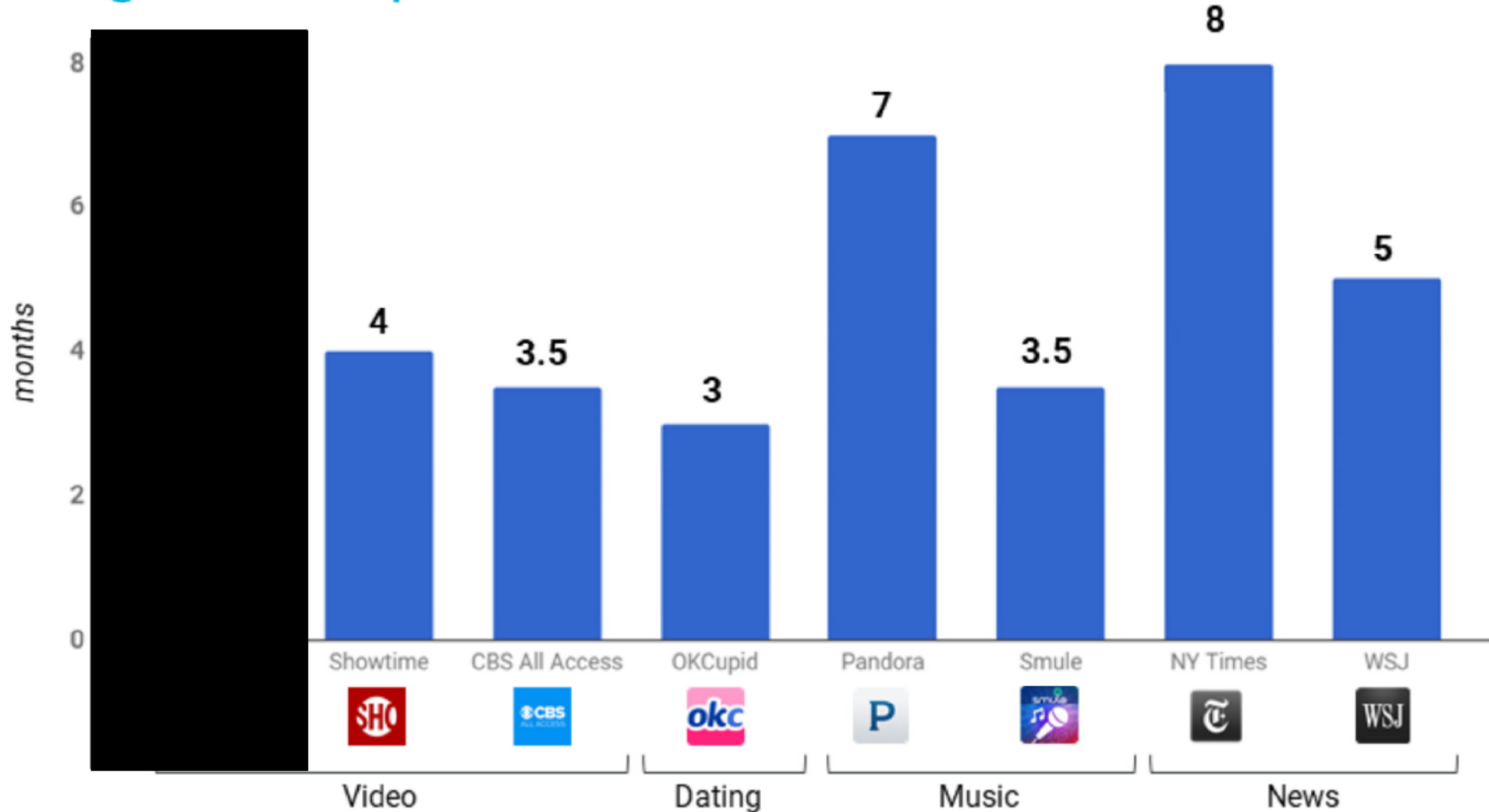
Paul Feng, 7/28/2017

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Average subscription duration on Android



Source: Internal data.

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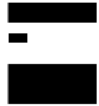
Top game titles on Play have reasonably long spend duration (non-recurring IAP)

	Months since 1st purchase before reaching 80% of total spend on game	
<i>Top Game Titles</i>	All Buyers	High Value Gamers Only <i>(\$1000+ minimum spend on title)</i>
Clash of Clans	10	13
Clash Royale	5	6
Candy Crush Saga	18+	18+
Game of War	14	15
Mobile Strike	8	8
Candy Crush Soda Saga	15	18
Slotomania Free Slots 777	18+	18+
Star Wars: Galaxy of Heroes	8	9
Pokemon Go	3	6
Clash of Kings	12	12
Average	~11 months	~12 months

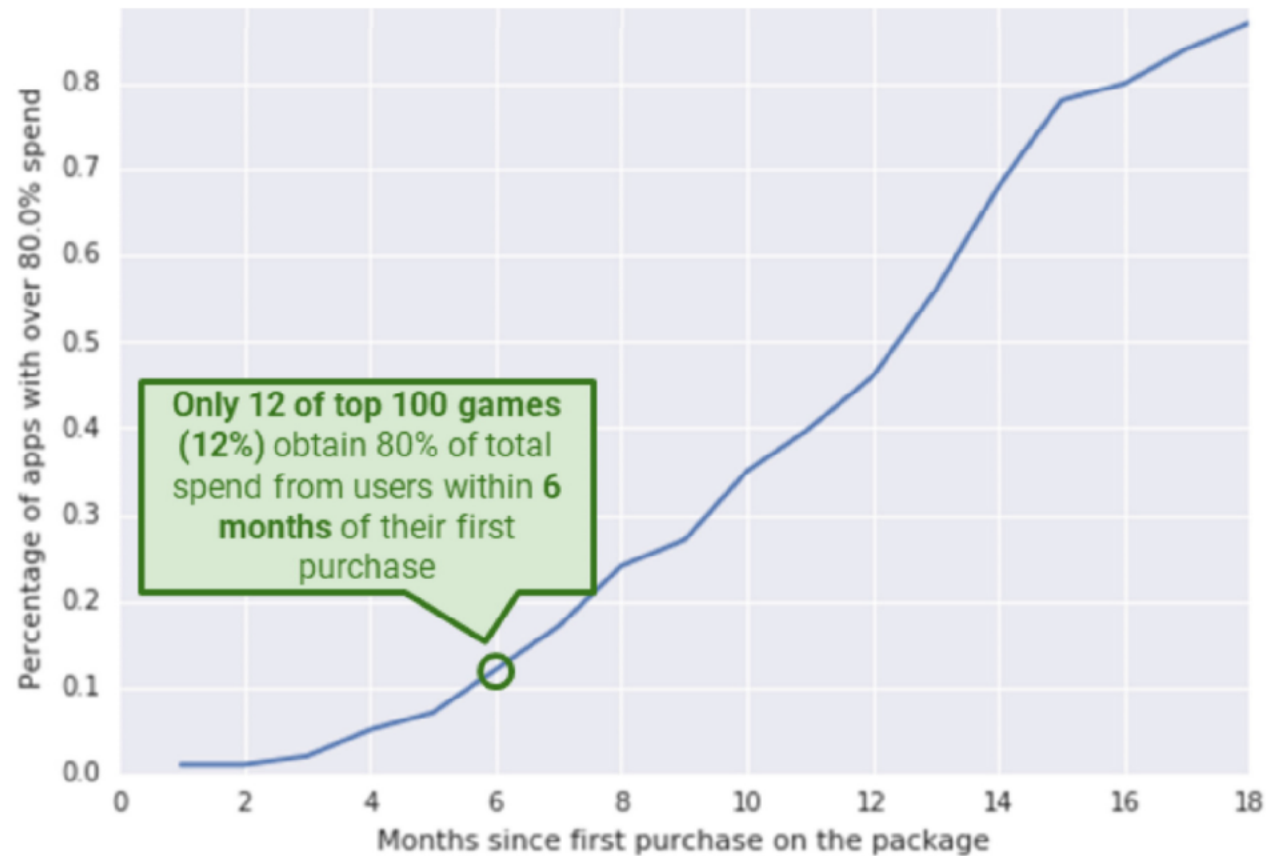
Source: Internal Play Data

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Top 100 Game Spend Distribution



Top 100 Games on Play (by Spend)



Source: Internal Play Data

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Rev share positioning vs. Games

Subs are challenging but worthwhile investment for users / developers / Google

Ecosystem investment

- Subscriptions help diversify content and experiences for the ecosystem, and that's good for users. We are investing to ensure we have great subscription experiences available for Android users.
- Subscriptions bring in high value new paying users and diversify the user base
- Game developers can also build subscription experiences

Customer commitment

- Subscriptions require users to make an upfront commitment to pay over many periods, that commitment is hard to earn

Subscriptions (often) cost more


- Incremental users cost subscription services more because of content fees, etc and the need to provide ongoing content.

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- Presenter: Paul

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Play transaction costs



	2016 <u>Subscription</u> Spend, by FOP	Google Transaction Cost (% of spend)
Credit Card	61% (down 5pp from 2014)	4.5% to 6.5%
DCB	27% (down 4pp from 2014)	6% to 15%*
PayPal	12% (up 9pp from 2014)	4.5% to 6.5%
Stored Value	0% (launched March 2017)	10.5- 12.5%



2016 weighted average cost for subscriptions = ~7%

Google Transaction Cost includes transactions fees, chargebacks, & customer support.

* Assume 10% average for DCB. Contracts currently migrating from 15% to 6%.

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Developer category margins

Developer Category	Price (per month)	Contribution Margin	Sub Duration (months)	Android Subscriber LTV
Video	\$10	30%	4	\$12
Music & Audio	\$10	25%	6	\$12
News & Magazines	\$15	60%	5	\$60
Dating / Social	\$25	80%	3	\$60
Health & Fitness	\$15		4	\$48
Tools	\$10		4	\$32
Productivity	\$10		5	\$40

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